

**REPORT OF**  
**MISSOURI DEPARTMENT OF TRANSPORTATION**  
**AND HIGHWAY PATROL EMPLOYEES'**  
**RETIREMENT SYSTEM**  
**JUNE 30, 2023**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System

### **Opinion**

We have audited the accompanying statement of fiduciary net position of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System), as of June 30, 2023, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table on contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2023, and the changes in fiduciary net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

We conducted our audit in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a bases for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 6 and the schedules of changes in the employers' net pension liability, employers' contributions, investment returns, changes in net OPEB liability and related ratios, MPERS' proportionate share of net OPEB liability, and related notes on pages 28 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Systems' basic financial statements. The schedule of administrative expenses, schedule of investment expenses, and the schedule of consultant and professional expenses on pages 33 through 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses, schedule of investment expenses, and the schedule of consultant and professional expenses on pages 33 through 35 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information on pages 33 through 35 have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information on pages 33 through 35 is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Williams - Keepers LLC*

Columbia, Missouri  
November 3, 2023

# | Management's Discussion and Analysis |

The management of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System, or MPERS) provides this discussion and analysis of the System's financial performance for the fiscal year ended June 30, 2023. While this discussion is intended to summarize the financial status of MPERS, readers should consider this information in conjunction with the information that is furnished in the more detailed financial statements and corresponding notes.

## DESCRIPTION OF BASIC FINANCIAL STATEMENTS

As required by the Governmental Accounting Standards Board (GASB) accounting standards, this financial report consists of Management's Discussion and Analysis (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

**Financial Statements** report information about MPERS, using accounting methods similar to those used by private-sector companies, by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the System's overall financial status. These statements follow this Management's Discussion and Analysis section:

- The Statement of Fiduciary Net Position includes all the System's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position.
- The Statement of Changes in Fiduciary Net Position accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

**Notes to the Financial Statements** are included following the financial statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

**Required Supplementary Information** follows the notes and further supports the information in the financial statements.

**Supplementary Information** follows the required supplementary information and provides additional detailed administrative and investment expense information.

## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Overall, the financial position of MPERS increased by \$214.4 million, reported as the "net increase". This is primarily a result of the increase in the fair value of investments for the year ended June 30, 2023. The funded status of the plan showed an increase of 2.64%, primarily due to positive investment returns.

The following schedules present summarized comparative data from the System's financial statements for each of the fiscal years ended June 30, 2023 and 2022. Following each schedule is a brief summary providing explanation and analyses of the major reasons for changes in the condensed financial statements.

# | Management's Discussion and Analysis |

## ***Summarized Comparative Statements of Fiduciary Net Position***

	As of June 30, 2023	As of June 30, 2022	% Change 2023 / 2022
Cash and Receivables	\$ 43,820,838	\$ 119,368,464	-63.3
Investments	3,266,926,550	3,058,469,276	6.8
Invested Securities Lending Collateral	18,946,422	23,800,466	-20.4
Capital Assets	<u>536,438</u>	<u>388,915</u>	37.9
<b>Total Assets</b>	<b>3,330,230,248</b>	<b>3,202,027,121</b>	<b>4.0</b>
 <b>Deferred Outflows of Resources</b>	 <b>398,255</b>	 <b>513,253</b>	 <b>-22.4</b>
Accounts Payable	27,290,762	108,303,592	-74.8
OPEB Obligation	1,929,126	2,367,620	-18.5
Securities Lending Collateral	<u>19,284,048</u>	<u>24,560,325</u>	-21.5
<b>Total Liabilities</b>	<b>48,503,936</b>	<b>135,231,537</b>	<b>-64.1</b>
 <b>Deferred Inflows of Resources</b>	 <u><b>496,723</b></u>	 <u><b>115,751</b></u>	 <b>329.1</b>
 <b>Net Position Restricted for Pensions</b>	 <u><b>\$3,281,627,844</b></u>	 <u><b>\$3,067,193,086</b></u>	 <b>7.0</b>

The decrease in cash and receivables is primarily attributable to a decrease of investment sales receivable as of June 30, 2023. Fluctuations in this area are normal, based on investment activity.

The System's investments represent the main component of total assets. These investments include equities, fixed income, limited partnerships, hedge funds, and short-term investments. The increase in fair value of investments as of June 30, 2023, is a result of the positive investment performance during the fiscal year. The fiscal year 2023 investment return was 8.88% as calculated on a time-weighted rate of return methodology.

Capital assets increased in fiscal year 2023 due to additional improvements made to a recently purchased parcel of land adjacent to the MPERS office.

Deferred outflows of resources are related to Other Post-Employment Benefits (OPEB), required by Governmental Accounting Standards Board (GASB) Statement 75. The deferred outflows of resources relate to the timing of contributions paid and changes in assumptions.

The largest component of liabilities in fiscal year 2023 is accounts payable. The decrease in accounts payable for fiscal year 2023 is attributable to lower investment purchases payable. Fluctuations in this area are normal, based on investment activity. Another component of liabilities is securities lending collateral. This represents the amount owed for collateral to be returned as the result of investment securities lent. The corresponding securities lending collateral asset is valued at a lower amount than the securities lending collateral liability due to the fair value of the securities on loan being less than the collateral value.

Deferred inflows of resources are related to OPEB. The deferred inflows of resources relate primarily to the amortization of changes in actuarial assumptions.

The System's net position restricted for pensions was \$3.282 billion as of June 30, 2023, a \$214.4 million increase from the \$3.067 billion net position as of June 30, 2022.

# | Management's Discussion and Analysis |

## *Summarized Comparative Statements of Changes in Fiduciary Net Position*

	Year Ended June 30, 2023	Year Ended June 30, 2022	% Change 2023 / 2022
Contributions	\$ 244,262,169	\$ 225,366,897	8.4
Net Investment Income	264,756,429	122,767,485	115.7
Other Income	<u>1,954</u>	<u>195</u>	902.1
<b>Total Additions</b>	<b>509,020,552</b>	<b>348,134,577</b>	<b>46.2</b>
Benefits	289,056,536	279,637,701	3.4
Administrative Expenses	<u>5,529,258</u>	<u>5,229,018</u>	5.7
<b>Total Deductions</b>	<b>294,585,794</b>	<b>284,866,719</b>	<b>3.4</b>
Net Increase	214,434,758	63,267,858	238.9
Net Position – Beginning	<u>3,067,193,086</u>	<u>3,003,925,228</u>	2.1
<b>Net Position – Ending</b>	<b><u>\$3,281,627,844</u></b>	<b><u>\$3,067,193,086</u></b>	<b>7.0</b>

Net investment income, a primary component of plan additions, was \$264.8 million for fiscal year 2023, which represented an 8.88% return for the fiscal year ended June 30, 2023. In comparison, the fiscal year 2022 income of \$122.8 million represented an investment return of 3.94%. Annual fluctuations within the broad investment markets are outside the control of the System and are expected to fluctuate from year to year. Fiscal year 2023 was a good year as MPERS outperformed its policy index by 2.44%, building on the exceptional fiscal year 2022 investment return of 3.94% which outperformed the policy index by 8.28%. The Board of Trustees has approved a diversified asset allocation that, over long periods of time, is expected to realize the assumed actuarial rate of investment return of 6.50%.

Total benefits increased in fiscal year 2023 by \$9.4 million from fiscal year 2022 due to inflation driving up the annual cost-of-living adjustment (COLA) and due to an increase in the total number of retirees.

The increase in fiscal year 2023 administrative expenses is due to inflation putting upward pressure on the annual cost of living adjustment causing higher personnel and related benefit expenses.

## CURRENTLY KNOWN FACTS AND RECENT EVENTS

Based on the June 30, 2023 actuarial valuation, the Board of Trustees approved a decrease to the required state contribution rate for non-uniformed payroll (MoDOT, civilian patrol, and MPERS) to 52.01%, effective July 1, 2024. The rate approved for uniformed patrol increases to 58.49%.

Based on the June 30, 2022 actuarial valuation, the Board of Trustees approved a decrease to the required state contribution rate for uniformed patrol of 58.00%, effective July 1, 2023. The rate applied to non-uniformed payroll (MoDOT, civilian patrol, and MPERS) remained at 58.00%.

## CONTACTING THE RETIREMENT SYSTEM'S MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. Questions about this report or requests for additional financial information should be sent to:

MoDOT and Patrol Employees' Retirement System  
PO Box 1930  
Jefferson City, MO 65102-1930  
mpers@mpers.org

## Statement of Fiduciary Net Position

As of June 30, 2023

### ASSETS

Cash	\$ 590,877
Receivables	
Contributions	10,547,288
Accrued Interest and Income	13,449,780
Investment Sales	19,229,893
Other	<u>3,000</u>
Total Receivables	43,229,961
Investments, at Fair Value	
Equities	168,719,607
Fixed Income	1,104,543,056
Limited Partnerships	1,732,300,726
Hedge Funds	29,572,393
Short-Term Investments	<u>231,790,768</u>
Total Investments	3,266,926,550
Invested Securities Lending Collateral	18,946,422
Capital Assets, Net of Depreciation	
Land	188,319
Building and Improvements	745,828
Furniture, Equipment, and Software	3,445,854
Accumulated Depreciation	<u>(3,843,563)</u>
Capital Assets, Net of Depreciation	536,438
<b>TOTAL ASSETS</b>	<b>\$3,330,230,248</b>

<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 398,255</b>
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### LIABILITIES

Accounts Payable	\$ 2,872,218
OPEB Obligation	1,929,126
Security Lending Collateral	19,284,048
Investment Purchases	<u>24,418,544</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 48,503,936</b>

<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ <u>496,723</u></b>
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<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b><u>\$3,281,627,844</u></b>
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See accompanying Notes to the Financial Statements.



## Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2023

### ADDITIONS

Contributions	
Employer	\$ 232,813,995
Employee	6,838,152
Service Transfers from Other System	4,036,789
Other	<u>573,233</u>
Total Contributions	244,262,169
Investment Income from Investing Activities	
Net Appreciation in Fair Value of Investments	181,763,970
Interest and Dividends	115,234,758
Investment Expenses	<u>(32,438,336)</u>
Net Investment Gain	264,560,392
Income from Securities Lending Activities	
Securities Lending Gross Income	899,968
Securities Lending Expenses, net	<u>(703,931)</u>
Net Income from Securities Lending Activities	196,037
Other Income	<u>1,954</u>
<b>TOTAL ADDITIONS</b>	<b>\$ 509,020,552</b>

### DEDUCTIONS

Benefits Expenses	
Retiree and Survivor Annuity Benefits	\$ 265,534,764
BackDROP Payments	15,605,731
Disability Benefits	2,561,170
Death Benefits	1,065,000
Service Transfer Payments	3,317,630
Employee Contributions Refunds	<u>972,241</u>
Total Benefits Expenses	289,056,536
Administrative Expenses	<u>5,529,258</u>
<b>TOTAL DEDUCTIONS</b>	<b>\$ <u>294,585,794</u></b>
NET INCREASE	\$ 214,434,758
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	
Beginning of Year	<b><u>\$3,067,193,086</u></b>
End of Year	<b><u>\$3,281,627,844</u></b>

See accompanying Notes to the Financial Statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As established under Section 104.020 of the Revised Statutes of Missouri (RSMo.), the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) is a body corporate and an instrumentality of the State of Missouri (State). Due to the nature of MPERS' reliance on funding from the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP) and control of the overall plan document by the legislative and executive branches of state government, MPERS is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a component unit shown as a pension trust fund.

### **Note 1 (a) - Basis of Accounting**

The financial statements were prepared using the accrual basis of accounting. Contributions are due to MPERS when employee services have been performed. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits are recognized when due and payable and expenses are recorded when the corresponding obligations are incurred. Dividend income is recognized when dividends are declared. Interest income is recognized when earned.

### **Note 1 (b) - Method Used to Value Investments**

Investments are reported at fair value on a trade date basis. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate and timber investments are based on net asset value estimates provided by the general partners' administrators or portfolio managers, which are compared to independent appraisals. Investments that do not have an established market are reported at estimated fair value. The fair value of the hedge fund portfolios and partnership portfolios are based on valuations of the underlying assets as reported by the general partner or portfolio manager.

### **Note 1 (c) - Net Investment in Capital Assets**

MPERS capitalizes assets with an expected useful life greater than one year and a cost greater than \$5,000. Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Furniture, Equipment and Software	3-10 years
Building and Improvements	30 years

### **Note 1 (d) - Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 – PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

MPERS is a body corporate and an instrumentality of the state as a multiple-employer, public employee retirement system with one plan that has three benefit structures known as the Closed Plan, the Year 2000 Plan, and the Year 2000 Plan-2011 Tier. The plan provides retirement, survivor, and disability benefits for employees of MoDOT, MSHP, and MPERS. The plan is administered in accordance with the requirements of a cost sharing, multiple-employer, public employee retirement plan under the Revised Statutes of Missouri. In MPERS are vested the powers and duties specified in sections 104.010 to 104.312, 104.601 to 104.805, and 104.1003 to 104.1093, RSMo., and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes outlined pursuant to these sections. Responsibility for the operation and administration of the System is vested in the Board of Trustees, which consists of eleven members, four elected by the active and retired plan members, three Highway and Transportation Commissioners, a State Senator appointed by the President pro tem of the Senate, a State Representative appointed by the Speaker of the House, and the MoDOT Director and MSHP Superintendent who serve as ex-officio members. Detailed information regarding contributions can be found in Note 5.

# | Notes to the Financial Statements |

Generally, all covered employees hired before July 1, 2000, are eligible for membership in the Closed Plan. All covered employees hired on or after July 1, 2000, and before January 1, 2011, are eligible for membership in the Year 2000 Plan. All covered employees hired on or after January 1, 2011, are eligible for membership in the Year 2000 Plan's 2011 Tier.

## ***Membership in the Closed Plan, Year 2000 Plan, and 2011 Tier as of June 30, 2023***

	Closed	Year 2000	Tier 2011	Total
Retirees, Beneficiaries, and Disabilities Currently				
Receiving Benefits	4,769	4,805	76	9,650
Terminated Employees Entitled to But Not Yet				
Receiving Benefits	842	1,027	375	2,244
Active Employees				
Vested	1,296	1,871	1,514	4,681
Non-Vested	3	40	1,898	1,941
<b>Total Membership</b>	<b><u>6,910</u></b>	<b><u>7,743</u></b>	<b><u>3,863</u></b>	<b><u>18,516</u></b>

### **Closed Plan Description**

Employees covered by the Closed Plan are fully vested for benefits upon receiving 5 years of creditable service. Under the Closed Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 65 with 4 or more years of creditable service (active);
- Age 65 with 5 or more years of creditable service (terminated & vested);
- Age 60 with 15 or more years of creditable service (active or terminated & vested); or
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested).

The following provisions apply for uniformed patrol members of the Closed Plan:

- Age 55 with 4 or more years of creditable service (active);
- Age 55 with 5 or more years of creditable service (terminated & vested);
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested); or
- Mandatory retirement at age 60 (active).

All non-uniformed members may retire early, with reduced benefits, at age 55 with at least 10 years of creditable service.

The base benefit in the Closed Plan is equal to 1.6% multiplied by the final average pay multiplied by years of creditable service. For members of the uniformed patrol, the base benefit is calculated by applying the same formula, then multiplying the product by 1.333333.

Retired uniformed members will receive an additional benefit of \$90 per month, plus cost-of-living adjustments (COLAs), until attainment of age 65. This payment, however, is reduced by any amount earned during gainful employment. This benefit is not available to uniformed members hired on or after January 1, 1995, or to vested deferred members.

For members employed prior to August 28, 1997, COLAs are provided annually based on 80% of the increase in the consumer price index for all urban consumers for the United States (CPI-U). The minimum rate is 4% and the maximum rate is 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated, and the annual COLA rate will be equal to 80% of the increase in the CPI-U (annual maximum of 5%). For members employed on or after August 28, 1997, COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that is available to eligible members upon retirement. This option provides for a benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

## | Notes to the Financial Statements |

The life income annuity payment option (which contains no provision for survivorship) and the life income with 60 or 120 month guaranteed payment options are available to all members. Joint and 50% or 100% survivor options are available if married at the time of retirement. In the Closed Plan, the reduction for the joint & 100% survivor option is based on the difference between the age of the member and the survivor. There is no reduction for the joint and 50% survivor option.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse as beneficiary if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect a payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving normal or work-related disability benefits, on or after September 28, 1985, are provided a \$5,000 death benefit payable to designated beneficiaries.

### **Year 2000 Plan Description**

Employees covered by the Year 2000 Plan are fully vested for benefits upon earning 5 years of creditable service. Under the Year 2000 Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 62 and with 5 or more years of creditable service (active or terminated & vested);
- “Rule of 80” – at least age 48 with sum of member’s age and service equaling 80 or more (active).

The following provisions apply for uniformed patrol members of the Year 2000 Plan:

- “Rule of 80” – at least age 48 with sum of member’s age and service equaling 80 or more (active);
- Mandatory retirement at age 60 (active only).

All members may retire early with reduced benefits at age 57 with at least 5 years of creditable service.

The base benefit in the Year 2000 Plan is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 80, and uniform patrol members retiring at the mandatory retirement age (currently 60), receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that may be available to members upon retirement. This option provides for a monthly benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any temporary benefits, COLAs, and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member’s age at retirement, as well as the age difference between the member and the survivor.

# | Notes to the Financial Statements |

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after July 1, 2000, are provided a \$5,000 death benefit payable to designated beneficiaries.

## **Year 2000 Plan-2011 Tier Description**

Employees covered by the 2011 Tier are fully vested for benefits upon earning 5 years of creditable service if they were active on or after January 1, 2018. Under the 2011 Tier, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 67 and with 5 or more years of creditable service (active or terminated & vested);
- “Rule of 90” – at least age 55 with sum of member’s age and service equaling 90 or more (active only).

Active MoDOT and civilian employees may retire early with reduced benefits at age 62 with at least 5 years of creditable service. The following provisions apply for uniformed patrol members of the 2011 Tier:

- Age 55 and with 5 or more years of creditable service (active only);
- Mandatory retirement at age 60 with no minimum service amount (active only).

Terminated and vested uniformed patrol employees may retire at age 67 with 5 or more years of creditable service.

The base benefit in the 2011 Tier is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service.

Members retiring under the Rule of 90, and uniform patrol members retiring at the mandatory retirement age (currently 60) or at age 55 with 5 years of creditable service, receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the change in the CPI-U, up to a maximum rate of 5%.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member’s age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after January 1, 2011, are provided a \$5,000 death benefit payable to designated beneficiaries.

# | Notes to the Financial Statements |

## **Contributions**

Beginning January 1, 2011, employee contributions of 4% of gross pay are required for those covered by the Year 2000 Plan-2011 Tier.

Employer contributions are determined through annual actuarial valuations. Administrative expenses are financed through contributions from participating employers and investment earnings.

Participating employers are required to make contributions to the plan based on the actuarially determined rate. Detailed information regarding contributions can be found in Note 5.

## **NOTE 3 – DEPOSITS AND INVESTMENTS**

The Board of Trustees has established policies and procedures by which funds are invested. Section 104.150, RSMo., provides the authority for the Board to invest MPERS funds. Plan assets are invested in a diversified portfolio following prudent standards for preservation of capital, with the goal of achieving the highest possible rate of return consistent with MPERS' tolerance for risk. The Board of Trustees establishes MPERS' asset allocation policy and may amend the policy. The following is MPERS' current asset allocation policy:

<b>Asset Class</b>	<b>Target Allocation</b>
Public Equity	40.0%
Private Equity	10.0%
Traditional Fixed Income	22.5%
Opportunistic Debt	7.5%
Real Assets	10.0%
Real Estate	10.0%
Cash	0.0%

### **Note 3 (a) - Deposit and Investment Risk Policies**

#### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Within the traditional asset classes (equities and fixed income), the consultant will aggregate exposures across asset classes to create measures of concentration including industries, countries, and security issuer for Investment staff review.

#### **Investment Custodial Credit Risk**

Custodial credit risk is an investment risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or the collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the System's name. It is the policy of the System to require that all investments be clearly marked as to ownership and, to the extent possible, shall be registered in the name of the System.

#### **Cash Deposit Custodial Credit Risk**

Cash deposit custodial credit risk is the risk that, in the event of the failure of depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Missouri state law requires that all public funds must be collateralized with acceptable securities having fair values of at least 100% of the amount of funds on deposit (less any amount covered by FDIC insurance).

#### **Market Risk**

Market risk is the risk that the fair value of an investment will be adversely impacted due to a change in value of the underlying market. The three primary market risks prevalent in the System's investment portfolio are equity prices, interest rates, and foreign currencies. Equity risk is the risk that stock prices fall and/or the volatility in the equity market increases. Interest rate risk is the risk

# | Notes to the Financial Statements |

that fixed income securities (or any investment primarily valued on a yield basis) will drop in value due to an increase in interest rates. Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The System protects the portfolio against market risks by adopting a diversified asset allocation that limits the amount of exposure to each underlying market risk. Market risks are also controlled by monitoring the types, amounts, and degree of risk that each investment manager takes for their specific mandate.

## **Investment Credit Risk**

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Unless authorized under a separate Investment Management Agreement or operating agreement, it is the policy of the System to limit fixed income managers to purchasing securities that possess a minimum credit rating of “Baa” by Moody’s and “BBB” by Standard & Poor’s. Issues subsequently downgraded below these ratings must be brought to the attention of the Chief Investment Officer. Where counterparty risk is present, the System’s investment managers seek to control credit risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

## **Note 3 (b) - Cash Deposits**

Cash balances include short-term securities held by the custodial bank to meet future obligations and operating balances held by the depository bank. As of June 30, 2023, MPERS had a carrying amount of deposits of \$590,877, and a bank balance of \$864,060. The FDIC covered \$250,000 of the bank balance with the remaining balance being fully collateralized.

## **Note 3 (c) – Concentrations**

No investments in any one organization (other than those issued or sponsored by the U.S. government and those in pooled investments) represent 5% of plan net position.

## **Note 3 (d) – Rate of Return**

For the year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.87%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## **Note 3 (e) – Investments**

The following table shows MPERS’ investments by type.

### ***Summary of Investments by Type as of June 30, 2023***

	<b>Carrying Amount</b>	<b>Fair Value</b>
Equities	\$ 162,044,696	\$ 168,719,607
Fixed Income	1,146,167,516	1,104,543,056
Limited Partnerships	1,500,911,586	1,732,300,726
Hedge	23,853,108	29,572,393
Short Term Securities	231,764,230	231,790,768
Securities Lending Collateral	<u>18,946,422</u>	<u>18,946,422</u>
<b>Total Investments</b>	<b><u>\$3,083,687,558</u></b>	<b>\$3,285,872,972</b>

### **Reconciliation to Statement of Fiduciary Net Position:**

Less: Securities Lending Collateral	<u>(18,946,422)</u>
<b>Investments per Statement of Fiduciary Net Position</b>	<b><u>\$3,266,926,550</u></b>

## | Notes to the Financial Statements |

Certain investments are not listed on national exchanges, over-the-counter markets, nor do they have quoted market prices. Their valuation is based on the most current net asset values, independent appraisals, and/or good faith estimates of the investment's fair value provided by the general partner or portfolio manager, cash flow adjusted through fiscal year end. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed. The following investments were priced using those methods and comprised 53.93% of the total fair value of the System's investments as of June 30, 2023:

	<b>Fair Value</b>
Hedge Funds	\$ 29,572,393
Limited Partnerships	<u>1,732,300,726</u>
	<u>\$1,761,873,119</u>

### **Note 3 (f) – Fair Value Measurements**

MPERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

**Level 1:** Unadjusted quoted prices for identical instruments in active markets.

**Level 2:** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

**Level 3:** Values derived from valuation techniques in which significant inputs are unobservable. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.



# | Notes to the Financial Statements |

## **Investments Measured at Fair Value, June 30, 2023**

<b>Investments by Fair Value Level</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Short Term Securities	\$ 228,714,380	\$ 358,814,380	\$ 0	\$*(130,100,000)
Debt Securities				
Collateralized Debt Obligations	548,070,780	0	291,871,425	256,199,355
Commercial Mortgage-Backed Securities	250,436,099	0	174,049,134	76,386,965
Corporate Bonds	6,620,868	0	5,784,124	836,744
Government Commercial Mortgage-Backed Securities	6,314,954	0	5,928,771	386,183
Government Mortgage-Backed Securities	41,170,026	0	16,934,924	24,235,102
Municipal Bonds	125,381,655	0	58,504,777	66,876,878
U.S. Government Agencies	47,562,111	0	47,562,111	0
U.S. Treasury Securities	47,248,886	0	47,248,886	0
Funds – Corporate Bonds	<u>10,292,721</u>	<u>10,292,721</u>	<u>0</u>	<u>0</u>
Total Debt Securities	1,083,098,100	10,292,721	647,884,152	424,921,227
Equity Securities				
Communication Services	106,063	106,063	0	0
Consumer Discretionary	186,340	186,340	0	0
Consumer Staples	418,678	418,678	0	0
Energy	210,083	210,083	0	0
Financials	56,248,620	53,819,000	2,429,620	0
Health Care	5,908,661	5,908,661	0	0
Industrials	2,701,067	2,701,067	0	0
Information Technology	1,330,359	1,330,359	0	0
Materials	116,654	116,654	0	0
Real Estate	<u>39,517,741</u>	<u>39,517,741</u>	<u>0</u>	<u>0</u>
Total Equity Securities	106,744,266	104,314,646	2,429,620	0
Private Markets				
Opportunistic Debt	335,935,381	19,521,566	1,988,290	314,425,525
Private Equity	454,568,107	(124,306)	0	454,692,413
Real Assets	460,827,715	7,788,358	0	453,039,357
Real Estate	<u>252,386,425</u>	<u>8,930,479</u>	<u>0</u>	<u>243,455,946</u>
Total Private Markets	1,503,717,628	36,116,097	1,988,290	1,465,613,241
Investment Derivative Instruments				
Swaps	<u>11,967,993</u>	<u>10,619,931</u>	<u>1,348,062</u>	<u>0</u>
Total Investment Derivative Instruments	<u>11,967,993</u>	<u>10,619,931</u>	<u>1,348,062</u>	<u>0</u>
<b>Total Investment by Fair Value Level</b>	<b>\$2,934,242,367</b>	<b><u>\$ 520,157,775</u></b>	<b><u>\$ 653,650,124</u></b>	<b><u>\$1,760,434,468</u></b>

## **Investments Measured at Net Asset Value**

Global Asset Allocation	7,400,021
In-Liquidation	444,473
Multi-Strategy	263,040,242
Opportunistic Debt	7,198,067
Private Real Estate Fund	62,830,073
Structured Credit - Relative Value	<u>11,706</u>
Total Investments Measured at Net Asset Value	<u>340,924,582</u>
<b>Total Investments</b>	<b><u>\$3,275,166,949</u></b>

## **Reconciliation to Statement of Fiduciary Net Position**

Total Investments Measured at Fair Value and Derivatives	\$3,275,166,949
Investment Sales Receivable	(19,229,893)
Investment Purchases Payable	24,418,544
Accrued Interest and Income	(13,449,780)
Accrued Expenses	<u>20,730</u>
<b>Total Investments per Statement of Fiduciary Net Position</b>	<b><u>\$3,266,926,550</u></b>

\*Line of credit revolving loan as authorized by MPERS investment policy. Please refer to Note 12 for additional information.

# | Notes to the Financial Statements |

Investments listed as level 1 include securities and futures contracts where the price comes from an exchange.

Investments listed as level 2 include securities where an independent pricing evaluator had direct observable information including: trading volume, multiple sources of market data and benchmark spreads. The equity index swap is included because the valuation inputs include an observable interest rate and the underlying index.

Investments listed as level 3 include securities where an independent pricing evaluator did not have direct observable information and had limited market information for comparable securities. Significant inputs used in the valuation are not available aside from the evaluator providing the price. Direct investments in private equity, real estate, credit, and real assets are included because the valuation techniques utilize discounted cash flows or other non-observable market information by manager.

## ***Private Markets Measured at Fair Value as of June 30, 2023***

<b>Private Markets</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>
Private Equity	\$ 454,568,107	\$ 148,139,341
Real Estate	252,386,425	173,194,232
Real Assets	460,827,715	63,859,968
Opportunistic Debt	<u>335,935,381</u>	<u>221,263,211</u>
<b>Total Private Markets</b>	<b><u>\$1,503,717,628</u></b>	<b><u>\$ 606,456,752</u></b>

### **Private Markets**

Private equity, real estate, real assets, and opportunistic debt are the four asset classes that fall into the category of private market funds. These funds invest in the equity or debt of private companies.

**Private Equity:** The private equity portfolio includes 31 direct fund investments and three fund of fund investments. These funds mostly invest in private companies adding value through operational or industry expertise and vast networks. The majority of the private equity allocation is in buyout funds with a smaller portion in venture capital and growth equity funds. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years.

**Real Estate:** The real estate portfolio consists of 24 real estate funds. The noncore real estate book includes 20 real estate funds that invest in value-add or opportunistic strategies. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years. The remaining four investments are in core real estate funds. Three of these funds are open-ended. Three are eligible for redemption on a quarterly basis and one on a daily basis.

**Real Assets:** The real asset portfolio contains 34 funds that invest in private energy, aviation, mining, and shipping companies. The timber portfolio, which includes both ownership in timber funds and direct timber investments, is also within the real assets portfolio. The timber portfolio has 12 direct timber investments. These funds and investments are not eligible for redemption. Distributions are received as underlying investments and investments within the funds are liquidated, which on average can occur over the span of six to ten years.

**Opportunistic Debt:** The opportunistic debt portfolio, comprised of 35 funds, provides financing to various companies. While this portfolio has a U.S. bias, some funds invest internationally with exposures in Europe and Asia. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of three to five years.

# | Notes to the Financial Statements |

## *Investments Measured at Net Asset Value as of June 30, 2023*

Investments at Net Asset Value	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Asset Allocation	\$ 7,400,021	0	Monthly	5-60 days
In-Liquidation	444,473	0	In Liquidation	
Multi-Strategy	263,040,242	0	Monthly	60-90 days
Opportunistic Debt	7,198,067	0	Quarterly	45 days
Structured Credit – Relative Value	11,706	0	Quarterly	60 days
Private Real Estate Funds	62,830,073	0	Daily	90 days
<b>Total Investments at Net Asset Value</b>	<b><u>\$340,924,582</u></b>	<b><u>\$ 0</u></b>		

### Hedge Funds

**Global Asset Allocation:** Consisting of one fund, this strategy is highly diversified and uses fundamental research to develop systematic rules for trading positions. Due to contractual lock-up restrictions, the value of this fund is eligible for redemption in the next 35 days.

**Hedge Funds in Liquidation:** MPERS currently has a small investment in three hedge funds that are in liquidation. These funds have closed and MPERS is awaiting the sale of final assets.

**Multi-Strategy:** Consisting of one fund, this group aims to pursue varying strategies in order to diversify risks and reduce volatility. Due to contractual lock-up restrictions, the value of this fund is eligible for redemption in the next six months.

**Opportunistic Debt:** Consisting of one fund, this group uses public, but illiquid, fixed income structuring to achieve higher returns by separating and securitizing the unique credit risk tranches.

**Structured Credit – Relative Value:** MPERS currently has one fund that is in liquidation in this strategy.

### Private Real Estate Funds

MPERS invests in four core private real estate funds that are commingled in nature. Three are eligible for redemption on a quarterly basis and one on a daily basis.

### Note 3 (g) – Investment Interest Rate Risk

The following table summarizes the maturities of government obligations, corporate bonds, mortgages, and asset-backed securities which are exposed to interest rate risk.

## *Summary of Weighted Average Maturities as of June 30, 2023*

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Asset-Backed Securities	\$ 560,350,966	\$ 2,007,010	\$ 48,042,848	\$126,493,143	\$383,807,965
Commercial Mortgage-Backed Securities	239,113,392	0	0	10,975,245	228,138,147
Corporate Bonds	6,513,542	98,182	3,623,896	184,721	2,606,743
Government Agencies	47,094,267	0	0	2,624,733	44,469,534
Government Bonds	24,860,547	0	1,286,016	0	23,574,531
Government Mortgage-Backed Securities	40,999,606	0	42,968	156,303	40,800,335
Government-Issued Commercial Mortgage-Backed Securities	6,278,704	0	0	0	6,278,704
Index Linked Government Bonds	22,034,754	0	10,323,307	0	11,711,447
Municipal/Provincial Bonds	136,437,093	2,131,820	12,180,308	21,874,191	100,250,774
Non-Government-Backed C.M.O.'s	10,567,465	0	495,696	0	10,071,769
<b>Total</b>	<b><u>\$1,094,250,336</u></b>	<b><u>\$ 4,237,012</u></b>	<b><u>\$ 75,995,039</u></b>	<b><u>\$162,308,336</u></b>	<b><u>\$851,709,949</u></b>

# | Notes to the Financial Statements |

## **NOTE 3(h) – Investment Credit Ratings**

The table below summarizes the credit ratings of the government obligations, corporate bonds, mortgages, and asset-backed securities.

Investment Type	AAA	AA	A	BBB	CCC	CC	D	Not Rated	US Government Guaranteed	Total
Asset-Backed Securities	\$176,601,601	\$ 80,185,389	\$ 12,217,953	\$ 0	\$ 701,887	\$ 33,857,462	\$ 607,466	\$256,179,208	\$ 0	\$ 560,350,966
Commercial Mortgage-Backed Securities	28,200,325	1,323,643	0	0	0	0	0	209,587,427	1,997	239,113,392
Corporate Bonds	0	2,606,743	2,499,774	1,407,025	0	0	0	0	0	6,513,542
Government Agencies	0	43,263,372	0	0	0	0	0	0	3,830,895	47,094,267
Government Bonds	0	0	0	0	0	0	0	4,316,719	20,543,828	24,860,547
Government Mortgage-Backed Securities	0	0	0	0	0	0	0	35,526	40,964,080	40,999,606
Government-Issued Commercial Mortgage-Backed Securities	0	0	0	0	0	0	0	0	6,278,704	6,278,704
Index Linked Government Bonds	0	0	0	0	0	0	0	8,587,992	13,446,762	22,034,754
Municipal/Provincial Bonds	26,553,830	69,842,446	0	0	0	0	0	40,040,817	0	136,437,093
Non-Government-Backed C.M.O.'s	1,637,181	0	0	105,625	1,670,541	0	0	7,154,118	0	10,567,465
<b>Total</b>	<b><u>\$232,992,937</u></b>	<b><u>\$197,221,593</u></b>	<b><u>\$ 14,717,727</u></b>	<b><u>\$ 1,512,650</u></b>	<b><u>\$ 2,372,428</u></b>	<b><u>\$ 33,857,462</u></b>	<b><u>\$ 607,466</u></b>	<b><u>\$525,901,807</u></b>	<b><u>\$ 85,066,266</u></b>	<b><u>\$1,094,250,336</u></b>

# | Notes to the Financial Statements |

## **Note 3 (i) – Investment Foreign Currency Risk**

Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The following table summarizes MPERS' exposure to foreign currencies for all assets that are held in custody at the System's custodial bank. MPERS has exposure to foreign currencies in other areas of the portfolio, such as commingled international funds, hedge funds and private partnerships, which are held in the custody of other banks acting as administrators for the funds.

### ***Exposure to Foreign Currency Risk as of June 30, 2023***

Foreign Currency	Equities	Fixed Income	Real Estate / Partnerships	Cash and Cash Equivalents	Total
Australian Dollar	\$ 353,063	\$ 0	\$ 0	\$ 0	\$ 353,063
British Pound Sterling	419,745	781,851	2	25,112	1,226,710
Canadian Dollar	154,648	0	3,927,566	27,984	4,110,198
Euro	688,890	500,729	41,307,790	920	42,498,329
Hong Kong Dollar	377,484	0	0	0	377,484
Hungarian Forint	0	0	0	985	985
New Israeli Shekel	0	0	0	265	265
Japanese Yen	805,177	0	0	0	805,177
Singapore Dollar	240,196	0	0	0	240,196
Swiss Franc	102,731	0	0	0	102,731
<b>Total Exposure Risk</b>	<b><u>\$ 3,141,934</u></b>	<b><u>\$ 1,282,580</u></b>	<b><u>\$45,235,358</u></b>	<b><u>\$ 55,266</u></b>	<b><u>\$49,715,138</u></b>

## **Note 3 (j) – Securities Lending**

In accordance with the Board of Trustees' investment policy, MPERS participates in a securities lending program. The Northern Trust Company administers the program. There are no restrictions on the amount of securities that may be lent.

Securities that may be loaned include U.S. government and agency securities, corporate equity, and fixed income securities. Collateral may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned in exchange for collateral valued at 102% of the fair value of the securities, plus any accrued interest. Non-U.S. securities are loaned in exchange for collateral valued at 105% of the fair value of the securities, plus any accrued interest. On June 30, 2023, MPERS had no credit risk exposure to borrowers since the amount of collateral exceeded the amount of the loans.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. The average term of the System's loans was approximately 93 days as of June 30, 2023. Cash open collateral is invested in a short-term investment pool, which had an interest sensitivity of 13 days as of June 30, 2023. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. There were no known violations of legal or contractual provisions, or borrower or lending agent default losses. There were no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited on approximately the fifteenth day of the following month.

Indemnification deals with a situation in which a client's securities would not be returned due to the insolvency of a borrower and Northern Trust would fail to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses and demanding adequate types and levels of collateral.

The following table summarizes the collateral held (including both cash collateral recognized in the Statement of Fiduciary Net Position and non-cash collateral).

### ***Collateral Held as of June 30, 2023***

Investment Type	Carrying Amount of Cash Collateral	Fair Value of Non-Cash Collateral
Equities	\$16,033,019	\$30,735,964
Corporate Fixed	1,036,654	0
Government & Government-Sponsored Securities	2,214,375	1,062,161
<b>Total</b>	<b><u>\$19,284,048</u></b>	<b><u>\$31,798,125</u></b>

# | Notes to the Financial Statements |

## **Note 3 (k) – Derivatives**

A derivative financial instrument is an investment whose value depends on the values of one or more underlying assets, financial indexes, or commodity prices. These investments include futures contracts, options contracts, and forward foreign currency exchange. Derivative financial instruments involve credit risk and market risk, as described in Note 3(a), in varying levels.

Through MPERS' external managers, MPERS holds investments in futures contracts, swaps contracts, options contracts, and forward foreign currency exchange contracts. MPERS enters into futures and swaps contracts to gain exposure to certain markets and enters into forward foreign exchange contracts primarily to hedge foreign currency exposure.

The notional value related to these derivative instruments is generally not recorded in the financial statements; however, the fair value for the various contracts in MPERS' portfolio as of June 30, 2023, is recorded in investments on the Statement of Fiduciary Net Position. The total changes in fair value for the year are recorded in investment income on the Statement of Changes in Fiduciary Net Position.

### ***Investment Derivatives as of June 30, 2023***

Type	Classification	Notional Value	Unrealized Gain / (Loss)
Futures Contracts	Investments, at fair value	\$ 691,482,153	\$ 82,915,671
Swaps Contracts	Investments, at fair value	<u>431,040,373</u>	<u>26,343,515</u>
<b>Total</b>		<b><u>\$1,122,522,526</u></b>	<b><u>\$109,259,186</u></b>

Through the use of derivatives, MPERS is exposed to risk that the counterparties involved in the contracts are unable to meet the terms of their obligation. MPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MPERS anticipates the counterparties will be able to satisfy their obligations under contract.

At June 30, 2023, the counterparties' credit ratings for swaps are subject to credit risk as shown in the table below. Derivative instruments traded on the exchange are not subject to counterparty risk and therefore are not included in the table below.

### ***Counterparty Credit Ratings as of June 30, 2023***

Quality Rating	Swaps
A+	\$ 362,707,085
A-	<u>68,333,288</u>
<b>Total Subject to Credit Risk</b>	<b><u>\$431,040,373</u></b>

## **NOTE 4 – RECEIVABLES**

### ***Receivables as of June 30, 2023***

Type	Total
Contributions – MoDOT	\$ 6,480,441
Contributions – MSHP Non-Uniformed	1,471,542
Contributions – MSHP Uniformed	2,319,419
Contributions – MPERS	275,886
Investment Interest & Income	13,449,780
Investment Sales	19,229,893
Miscellaneous	<u>3,000</u>
<b>Total</b>	<b><u>\$43,229,961</u></b>

## NOTE 5 – CONTRIBUTIONS

MoDOT, MSHP, and MPERS make contributions to the System, as do employees covered under the Year 2000 Plan-2011 Tier. MPERS' permanent funding policy provides for actuarially determined employer contributions using the entry-age actuarial cost method. As of June 30, 2023, the funding policy has a 1-year closed amortization period for unfunded retiree liabilities and a 16-year closed amortization period for other unfunded liabilities. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by state statute to be funded in advance. Actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation. The employee contribution rate for members of the Year 2000 Plan-2011 Tier is set by statute.

Required employer contributions totaling \$232,813,995 for fiscal year 2023, represent funding of normal costs and amortization of the unfunded accrued liability. Actual contributions made were 100% of required contributions. Contribution rates for the fiscal year ended June 30, 2023, as determined by the actuarial valuation for the year ended June 30, 2021, are shown in the following table. The Board established actual rates to be the same as the actuarially determined rates.

<i>Contribution Rates</i>		
<b>MoDOT, MPERS &amp; Civilian Patrol</b>	<b>Uniformed Patrol</b>	<b>2011 Tier Employee</b>
58.00%	58.65%	4.00%

In September 2014, the Board adopted a contribution stabilization reserve fund from experience gains in an effort to keep contribution rates relatively level over time. In February 2015, the Board established a maximum of \$250 million in the contribution stabilization reserve fund. The balance of the reserve as of June 30, 2023, was \$250,000,000.

## NOTE 6 – DEFERRED RETIREMENT OPTION PROGRAM

MPERS currently provides a BackDROP option. This is an election made at the time of actual retirement. In effect, it provides members an option to elect to receive a portion of their benefits as cash. Since the election is not made until the member actually retires, the option is not treated as a DROP provision in accordance with generally accepted accounting principles.

# | Notes to the Financial Statements |

## NOTE 7 – NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability of the employers as of June 30, 2023, were as follows:

Total pension liability	\$ 4,709,391,407
Plan fiduciary net position	<u>(3,281,627,844)</u>
Employers' net pension liability	<u>\$ 1,427,763,563</u>
Plan fiduciary net position as a percentage of the total pension liability	69.68%
Covered payroll	\$ 400,799,485
Employers' net pension liability as a percentage of covered payroll	356.23%

### Actuarial Assumptions

The total pension liability amounts were determined by actuarial valuations as of June 30, 2023, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation (price inflation)	2.25%
Salary Increases (includes 3.00% wage inflation)	3.00% to 10.50%
Investment Rate of Return	6.50%

Post-retirement healthy mortality rates are used to measure the probabilities of members dying after retirement. The rates currently in use are from the Pub-2010 General, Healthy Retiree, Amount-Weighted, Below-Median Income tables for males and females for Non-Uniformed members and Pub-2010 Public Safety Healthy Retiree, Amount-Weighted, tables for males and females for Uniformed members. Rates are decreased by 5% for non-uniform males and increased by 4% for uniform males. The assumed rates are adjusted for mortality improvement back to the observation period base year of 2010 and then projected generationally from 2010 to 2019 using scale MP-2021 and 90% of scale MP-2021 for years following 2019.

Pre-retirement mortality rates currently in use for active lives are the Pub-2010 General, Employee, Amount-Weighted, Below-Median Income tables for males and females for Non-Uniformed members and the Pub-2010 Public Safety Employee, Amount-Weighted, tables for males and females for Uniformed members. The assumed rates are adjusted for mortality improvement back to the observation period base year of 2010 and then projected generationally from 2010 to 2019 using scale MP-2021 and 90% of scale MP-2021 for years following 2019.

Post-Retirement Disabled mortality rates currently in use for disabled lives are the Pub-2010 General Disabled Retiree, Amount-Weighted tables for males and females for Non-Uniformed members and the Pub-2010 Public Safety Disabled Retiree, Amount-Weighted tables for males and females for Uniformed members. The assumed rates are adjusted for mortality improvement back to the observation period base year of 2010 and then projected generationally from 2010 to 2019 using scale MP-2021 and 90% of scale MP-2021 for years following 2019.

The long-term (30 year) expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultants and actuary. These estimates for each major asset class included in MPERS' target asset allocation as of June 30, 2023, (see Note 3) are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return
Global Equity	3.0%
Private Equity	6.4%
Fixed Income	2.0%
Opportunistic Debt	5.9%
Real Assets	3.6%
Real Estate	2.6%



# | Notes to the Financial Statements |

## **Discount Rate**

A single discount rate of 6.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 6.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's June 30, 2023, net pension liability, calculated using a single discount rate of 6.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<b><i>Current Single Discount</i></b>			
	<b>1% Decrease 5.50%</b>	<b>Rate Assumption 6.50%</b>	<b>1% Increase 7.50%</b>
Net Pension Liability	\$2,009,047,608	\$1,427,763,563	\$947,694,408

## **NOTE 8 – EMPLOYER PROPORTIONATE SHARE**

MPERS, as the administrative agent for the pension system, is also an employer of the pension system. The administrative expenses of the pension system are included in the deductions to the pension system's fiduciary net position. While the employer contributions of the other participating employers are funded from outside revenue sources, the employer contributions of MPERS are funded from sources already recognized as revenues, such as earnings on plan investments or contributions paid by the other participating employers. Attempting to allocate a portion of the net pension liability to MPERS as an employer would result in an allocation of the net pension liability to the other participating employers. Accordingly, MPERS excludes its contributions from the employer proportionate share calculation for the reporting of a net pension liability, by assigning itself a proportionate share of 0%. This exclusion, in essence, shifts the portion of the net pension liability that would accrue to MPERS to the other participating employers.

## **NOTE 9 – PERSONNEL SERVICES AND RETIREMENT PLAN**

MPERS employed 19 full-time employees as of June 30, 2023. Twelve former MPERS employees have retired.

Full-time employees are members of the System (see Note 8). For these employees, MPERS accrued 58.00% of payroll during fiscal year 2023, amounting to \$1,506,656. The amounts for fiscal year 2023 and the four preceding years are shown below. These amounts are recorded as both a contribution and administrative expense. Information regarding the retirement plans can be found in Notes 2 and 5.

<b><i>Net Obligations</i></b>		
<b>Year Ended June 30</b>	<b>Annual Contribution Accrual Percent</b>	<b>Dollars</b>
2019	58.00%	\$ 987,370
2020	58.00	987,743
2021	58.00	1,219,468
2022	58.00	1,374,954
2023	58.00	1,506,656

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

In addition to the retirement benefits described previously, MPERS provides a portion of health care insurance through the MoDOT and MSHP Medical and Life Insurance Plan (Insurance Plan) in accordance with Missouri State statutes. The Insurance Plan is considered an agent multiple employer defined benefit plan and is administered by MoDOT. The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT. As of June 30, 2023, there were 9 inactive (retired) members and 19 active employees participating in the Insurance Plan.

Medical insurance benefits are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; and prescriptions. Eligible members are employees who retired from the System with a minimum of 5 years of service and who participate in the Insurance Plan. MoDOT issues a publicly available financial report that includes financial statements and required supplementary information for the Insurance Plan. Requests for this report should be addressed to MoDOT, Financial Services Division, P.O. Box 270, Jefferson City, MO 65102.

Employer and member contributions are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees.

**Changes in Total OPEB Liability**

MPERS' proportionate share (0.17%) of the Insurance Plan's net OPEB liability is \$1,929,126 which was measured as of July 1, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**Summary of Changes in Net OPEB Liability for the Year Ended June 30, 2023**

	<b>Total</b>
Beginning Balance	\$2,367,620
Changes for the year:	
Service Cost	81,825
Interest Cost	52,551
Changes of benefit terms	0
Differences between expected and actual experience	(8,837)
Changes in assumptions	(530,806)
Benefit Payments	<u>(33,227)</u>
Net Changes	(438,494)
Ending Balance	<b><u>\$1,929,126</u></b>

**Deferred Outflows and Inflows**

For the year ended June 30, 2023, MPERS recognized net OPEB expense of \$84,703 MPERS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Differences between expected and actual experience	\$174,233	\$ 15,758
Changes of assumptions or other inputs	200,355	480,965
Contributions subsequent to measurement date	<u>23,667</u>	<u>0</u>
<b>Total</b>	<b><u>\$398,255</u></b>	<b><u>\$496,723</u></b>

## | Notes to the Financial Statements |

Deferred outflows resulting from contributions subsequent to the measurement date will be recognized as a change to the net pension liability in each subsequent year. Other deferred amounts related to OPEB will be recognized in expenses as follows:

<b><i>Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</i></b>	
<b>Fiscal Year</b>	
2024	\$ 8,235
2025	2,416
2026	15,260
2027	(44,396)
2028	(79,983)
Total Thereafter	<u>0</u>
	<u>\$ (98,468)</u>

### **Actuarial Assumptions**

The following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Cost method	Entry Age Normal based upon salary
Salary increases	2.50%
Discount rate	3.54%
Investment rate of return	N/A; the plan is unfunded
Health care cost trend rates	5.60%; decreasing to 4.65% in 2027
Retirees' share of benefit-related costs	43.03% - 90%
Admin Expense Trend (Inflation) Rate	3.00%

- The salary increases were based on projected salaries, which include COLAs, provided by MoDOT.
- The discount rate was based on Bond Buyer General Obligation 20-Bond Municipal Bond Index.
- Mortality rates were based on Pub-2010 Public Retirement Plans Safety Employees Mortality Table weighted by Headcount projected by MP-2021.
- The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2021-June 30, 2022.
- It is assumed the current employer and member contributions will continue as approved by the Commission.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.16% in 2022 to 3.54% in 2023.

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability as of June 30, 2023:

<b><i>Interest Rate Sensitivity</i></b>			
	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
Net OPEB Liability	\$2,295,240	\$1,929,126	\$1,640,778

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability as of June 30, 2023:

<b><i>Healthcare Cost Trend Sensitivity</i></b>			
	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
Net OPEB Liability	\$1,594,821	\$1,929,126	\$2,361,447

# | Notes to the Financial Statements |

## NOTE 11 – CAPITAL ASSETS

### *Summary of Changes in Capital Assets*

	June 30, 2022		Deletions /	June 30, 2023
	Balance	Additions	Retirements	Balance
Land	\$ 188,319	\$ 0	\$ 0	\$ 188,319
Building	581,619	164,209	0	745,828
Furniture, Equipment and Software	3,438,789	7,065	0	3,445,854
Less: Accumulated Depreciation	<u>(3,819,812)</u>	<u>(23,751)</u>	<u>0</u>	<u>(3,843,563)</u>
<b>Total</b>	<b><u>\$ 388,915</u></b>	<b><u>\$ 147,523</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 536,438</u></b>

## NOTE 12 – LINE OF CREDIT AND LEVERAGE

In December 2022, MPERS entered into a revolving credit agreement with Bank of America, N.A. consisting of a line of credit not to exceed \$200 million. Under the terms of the credit agreement, each revolving loan shall bear interest on the outstanding principal amount thereof at a rate per annum equal to the Base Rate (fluctuating rate of interest per annum equal to the highest of (a) the Federal Funds Rate plus 0.50%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate,” and (c) the Daily SOFR Rate plus 1.00%) plus the applicable spread (a rate per annum equal to (a) in the case of Base Rate Loans, 0.00% and (b) in the case of Daily SOFR Rate Loans, 1.20%). MPERS leverage ratio at June 30, 2023, was approximately 10.6. The bank line of credit at June 30, 2023 consisted of a revolving loan of \$130.1 million, that was paid off July 12, 2023. The credit agreement contains covenants customary for financings of this type, including, but not limited to, financial covenants, which requires that MPERS Fair Value-Total Fund Investment Assets shall not be less than \$1.5 billion at any time and MPERS Funded Ratio shall not be less than 50% at any time. MPERS was in compliance with these financial covenants at June 30, 2023.

## NOTE 13 – COMMITMENTS

MPERS has committed \$1,845,881,622 of which \$1,239,424,870 has been invested, leaving total unfunded commitments to private equity, real estate, real assets, and opportunistic debt of \$606,456,752 as of June 30, 2023. The total unfunded investment commitments are not recorded in the accompanying Statement of Fiduciary Net Position.

## NOTE 14 – RISK MANAGEMENT

MPERS is exposed to various risks of loss related to natural disasters, asset theft or damage, errors and omissions, torts, and employee injuries.

MPERS has purchased commercial insurance related to capital asset loss and damage. Ancillary coverage provided through the property policy includes coverage for accounts receivable, loss of money and securities, employee dishonesty, and forgery and alterations. MPERS carries a \$2 million umbrella liability policy. MPERS has coverage through Missouri Highway and Transportation Commission’s Self-Insurance Fund related to workers’ compensation. MPERS has also purchased a directors and officers liability policy with \$1 million aggregate coverage. This coverage is inclusive of legal defense costs and carries a \$35,000 deductible. The State’s Legal Expense Fund covers all state employees and officers, and MPERS has purchased surety bonds for the executive director and staff. Settlements have not exceeded coverages for each of the past three fiscal years.

MPERS has a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal computing operations.

| Required Supplementary Information |

**Schedule of Changes in the Employers' Net Pension Liability  
Year Ended June 30**

	2023	2022	2021	2020	2019
<b>Total Pension Liability</b>					
Service Cost <sup>(1)</sup>	\$ 52,759,573	\$ 55,097,433	\$ 43,726,886	\$ 44,048,083	\$ 43,971,030
Interest on the Total Pension Liability	279,014,877	275,067,181	278,522,994	274,791,358	271,174,089
Benefit Changes	0	0	0	0	0
Difference Between					
Expected and Actual Experience	211,609,428	16,085,222	(26,471,689)	3,494,582	203,459
Assumption Change	44,379,018	0	226,319,675	0	0
Benefit Payments <sup>(2)</sup>	(288,084,295)	(278,612,715)	(266,108,191)	(262,710,811)	(255,310,406)
Refunds	(972,241)	(1,024,986)	(611,132)	(796,107)	(780,538)
Disability Premiums <sup>(2)</sup>	0	0	(1,600,628)	(1,640,971)	(1,615,860)
Transfers to Other Retirement Systems <sup>(2)</sup>	0	0	(1,802,900)	(2,457,945)	(2,111,007)
<b>Net Change in Total Pension Liability</b>	<b>298,706,360</b>	<b>66,612,135</b>	<b>251,975,015</b>	<b>54,728,189</b>	<b>55,530,767</b>
<b>Total Pension Liability – Beginning</b>	<b><u>4,410,685,047</u></b>	<b><u>4,344,072,912</u></b>	<b><u>4,092,097,897</u></b>	<b><u>4,037,369,708</u></b>	<b><u>3,981,838,941</u></b>
<b>Total Pension Liability – Ending (a)</b>	<b><u>\$4,709,391,407</u></b>	<b><u>\$4,410,685,047</u></b>	<b><u>\$4,344,072,912</u></b>	<b><u>\$4,092,097,897</u></b>	<b><u>\$4,037,369,708</u></b>
<b>Plan Fiduciary Net Position</b>					
Contributions – Employer	\$ 232,813,995	\$ 212,711,117	\$ 208,212,848	\$ 210,871,852	\$ 210,166,927
Contributions – Employee <sup>(3)</sup>	11,448,174	12,655,780	7,095,963	6,547,351	5,996,344
Pension Plan Net Investment Income	264,758,383	122,767,680	699,644,536	(10,667,857)	154,326,818
Benefit Payments <sup>(2)</sup>	(288,084,295)	(278,612,715)	(266,108,191)	(262,710,811)	(255,310,406)
Refunds	(972,241)	(1,024,986)	(611,132)	(796,107)	(780,538)
Disability Premiums <sup>(2)</sup>	0	0	(1,600,628)	(1,640,971)	(1,615,860)
Pension Plan Administrative Expense	(5,529,258)	(5,229,018)	(4,585,473)	(4,291,028)	(4,372,966)
Net Transfers <sup>(1) (2)</sup>	0	0	277,417	1,025,629	321,363
<b>Net Change in Plan Fiduciary Net Position</b>	<b>214,434,758</b>	<b>63,267,858</b>	<b>642,325,340</b>	<b>(61,661,942)</b>	<b>108,731,682</b>
<b>Plan Fiduciary Net Position – Beginning</b>	<b><u>3,067,193,086</u></b>	<b><u>3,003,925,228</u></b>	<b><u>2,361,599,888</u></b>	<b><u>2,423,261,830</u></b>	<b><u>2,314,530,148</u></b>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<b><u>\$3,281,627,844</u></b>	<b><u>\$3,067,193,086</u></b>	<b><u>\$3,003,925,228</u></b>	<b><u>\$2,361,599,888</u></b>	<b><u>\$2,423,261,830</u></b>
<b>Adjustment – GASB 75 Implementation</b>					
<b>Plan Fiduciary Net Position – Ending (as restated)</b>					
<b>Employers' Net Pension Liability (a) – (b)</b>	<b><u>\$1,427,763,563</u></b>	<b><u>\$1,343,491,961</u></b>	<b><u>\$1,340,147,684</u></b>	<b><u>\$1,730,498,009</u></b>	<b><u>\$1,614,107,878</u></b>
Plan Fiduciary Net Position as a % of Total Pension Liability	69.68%	69.54%	69.15%	57.71%	60.02%
Covered Payroll	\$ 400,799,485	\$ 367,493,332	\$ 359,409,940	\$ 363,980,262	\$ 362,747,630
Employers' Net Pension Liability as a % of Covered Payroll	356.23%	365.58%	372.87%	475.44%	444.97%

*Continued on next page.*

(1) Starting fiscal year 2022, Service Cost includes disability expense, service purchases, and transfers from other systems.

(2) Starting fiscal year 2022, Benefit Payments includes disability premiums and transfers to other systems.

(3) Starting fiscal year 2022, Contributions – Employee includes service purchases and transfers from other systems.

| Required Supplementary Information |

**Schedule of Changes in the Employers' Net Pension Liability  
Year Ended June 30 (continued)**

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service Cost	\$ 46,621,377	\$ 45,713,403	\$ 45,441,305	\$ 45,358,095	\$ 44,739,603
Interest on the Total Pension Liability	286,457,436	283,568,441	280,432,068	275,284,910	270,525,608
Benefit Changes	(7,684)	0	0	0	0
Difference Between Expected and Actual Experience	(37,173,164)	(37,286,966)	(39,810,009)	(13,324,219)	(17,614,321)
Assumption Change	142,556,109	0	0	0	0
Benefit Payments	(254,131,209)	(246,617,775)	(236,488,629)	(236,905,323)	(227,958,108)
Refunds	(503,007)	(321,328)	(198,106)	(107,395)	(18,686)
Disability Premiums	(1,601,605)	(1,620,418)	(1,567,825)	(1,554,676)	(1,531,578)
Transfers to Other Retirement Systems	<u>(2,823,042)</u>	<u>(2,724,631)</u>	<u>(1,921,451)</u>	<u>(3,147,482)</u>	<u>(1,876,336)</u>
<b>Net Change in Total Pension Liability</b>	<b>179,395,211</b>	<b>40,710,726</b>	<b>45,887,353</b>	<b>65,603,910</b>	<b>66,266,182</b>
<b>Total Pension Liability – Beginning</b>	<b><u>3,802,443,730</u></b>	<b><u>3,761,733,004</u></b>	<b><u>3,715,845,651</u></b>	<b><u>3,650,241,741</u></b>	<b><u>3,583,975,559</u></b>
<b>Total Pension Liability – Ending (a)</b>	<b><u>\$3,981,838,941</u></b>	<b><u>\$3,802,443,730</u></b>	<b><u>\$3,761,733,004</u></b>	<b><u>\$3,715,845,651</u></b>	<b><u>\$3,650,241,741</u></b>
<b>Plan Fiduciary Net Position</b>					
Contributions – Employer	\$ 204,955,180	\$ 206,562,924	\$ 199,609,396	\$ 200,638,571	\$ 183,353,841
Contributions – Employee	5,001,418	4,891,932	3,482,513	3,294,162	2,260,563
Pension Plan Net Investment Income	197,619,838	220,301,741	21,432,095	92,645,571	319,445,780
Benefit Payments	(254,131,209)	(246,617,775)	(236,488,629)	(236,905,323)	(227,958,108)
Refunds	(503,007)	(321,328)	(198,106)	(107,395)	(18,686)
Disability Premiums	(1,601,605)	(1,620,418)	(1,567,825)	(1,554,676)	(1,531,578)
Pension Plan Administrative Expense	(4,693,492)	(4,515,458)	(4,370,860)	(4,066,944)	(3,736,355)
Net Transfers	<u>(955,597)</u>	<u>(980,524)</u>	<u>808,228</u>	<u>(2,033,045)</u>	<u>(91,954)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>145,691,526</b>	<b>177,701,094</b>	<b>(17,293,188)</b>	<b>51,910,921</b>	<b>271,723,503</b>
<b>Plan Fiduciary Net Position – Beginning</b>	<b><u>2,168,838,622</u></b>	<b><u>1,992,073,946</u></b>	<b><u>2,009,367,134</u></b>	<b><u>1,957,456,213</u></b>	<b><u>1,685,732,710</u></b>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<b><u>\$2,314,530,148</u></b>	<b><u>\$2,169,775,040</u></b>	<b><u>\$1,992,073,946</u></b>	<b><u>\$2,009,367,134</u></b>	<b><u>\$1,957,456,213</u></b>
<b>Adjustment – GASB 75 Implementation</b>		<b><u>(936,418)</u></b>			
<b>Plan Fiduciary Net Position – Ending (as restated)</b>		<b><u>\$2,168,838,622</u></b>			
<b>Employers' Net Pension Liability (a) – (b)</b>	<b><u>\$1,667,308,793</u></b>	<b><u>\$1,633,605,108</u></b>	<b><u>\$1,769,659,058</u></b>	<b><u>\$1,706,478,517</u></b>	<b><u>\$1,692,785,528</u></b>
 Plan Fiduciary Net Position as a % of Total Pension Liability	 58.13%	 57.06%	 52.96%	 54.08%	 53.63%
 Covered Payroll	 \$ 353,751,292	 \$ 356,515,416	 \$ 344,635,441	 \$ 342,264,593	 \$ 336,590,797
 Employers' Net Pension Liability as a % of Covered Payroll	 471.32%	 457.95%	 513.49%	 498.58%	 502.92%

## | Required Supplementary Information |

### Schedule of Employers' Contributions Last 10 Fiscal Years

	Actuarially Determined Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll*	Contributions as a Percentage of Covered Payroll
2014	\$183,353,841	\$183,353,841	\$0	\$336,799,855	54.44%
2015	200,638,571	200,638,571	0	342,211,446	58.63
2016	199,609,396	199,609,396	0	344,154,131	58.00
2017	206,562,924	206,562,924	0	356,142,972	58.00
2018	204,955,180	204,955,180	0	353,371,000	58.00
2019	210,166,927	210,166,927	0	362,356,771	58.00
2020	210,871,852	210,871,852	0	363,572,159	58.00
2021	208,212,848	208,212,848	0	358,987,669	58.00
2022	212,711,117	212,711,117	0	366,743,305	58.00
2023	232,813,995	232,813,995	0	400,285,401	58.16

\*Values are estimated from contribution rate and actual contribution amount.

### Schedule of Investment Returns Last 10 Fiscal Years

Fiscal Year Ended June 30	Annual Money-Weighted Rate of Return
2014	17.58%
2015	6.62
2016	1.02
2017	11.22
2018	9.20
2019	6.84
2020	(0.44)
2021	30.79
2022	4.00
2023	8.87

### Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date ..... June 30, 2023  
 Actuarial Cost Method ..... Entry Age  
 Amortized Method ..... Closed, Level Percent of Payroll  
 Remaining Amortization Period ..... 16 Years  
 Asset Valuation Method ..... 3-Year Smoothed Fair Value: 20% Corridor  
 Inflation ..... 2.25% (price inflation)  
 Actuarial Assumptions:  
 Investment Rate of Return ..... 6.50%  
 Projected Salary Increase ..... 3.00% to 10.50% (includes 3.00% wage inflation)  
 Cost-of-Living Adjustments ..... 1.80% Compound

| Required Supplementary Information |

**Other Post-Employment Benefits (OPEB) Plan**  
**Schedule of Changes in Net OPEB Liability and Related Ratios for**  
**MoDOT and MSHP Medical and Life Insurance Plan**

	2023	2022	2021	2020	2019	2018
<b>Total OPEB Liability</b>						
Service Cost	\$ 81,825	\$ 74,581	\$ 51,302	\$ 64,136	\$ 66,676	\$ 81,000
Interest Cost	52,551	45,896	55,700	61,346	54,714	49,929
Changes of Benefit Terms	0	0	0	0	0	0
Differences Between Expected and Actual Experience	(8,837)	263,007	452	(17,475)	(12,565)	0
Changes in Assumptions	(530,806)	(368)	393,621	(58,897)	(81,559)	(238,129)
Benefit Payments	<u>(33,227)</u>	<u>(35,099)</u>	<u>(33,865)</u>	<u>(35,159)</u>	<u>(34,004)</u>	<u>(37,055)</u>
Net Change in Total OPEB Liability	(438,494)	348,017	467,210	13,951	(6,738)	(144,255)
<b>Total OPEB Liability (Beginning)</b>	<b><u>2,367,620</u></b>	<b><u>2,019,603</u></b>	<b><u>1,552,393</u></b>	<b><u>1,538,442</u></b>	<b><u>1,545,180</u></b>	<b><u>1,689,435</u></b>
<b>Total OPEB Liability (Ending)</b>	<b><u>\$1,929,126</u></b>	<b><u>\$2,367,620</u></b>	<b><u>\$2,019,603</u></b>	<b><u>\$1,552,393</u></b>	<b><u>\$1,538,442</u></b>	<b><u>\$1,545,180</u></b>
<b>Plan Fiduciary Net Position</b>						
Contributions	\$ 33,227	\$ 35,099	\$ 33,865	\$ 35,159	\$ 34,004	\$ 37,055
Benefit Payments	<u>(33,227)</u>	<u>(35,099)</u>	<u>(33,865)</u>	<u>(35,159)</u>	<u>(34,004)</u>	<u>(37,055)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Plan Fiduciary Net Position (Beginning)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Plan Fiduciary Net Position (Ending)</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
Net OPEB Liability (Ending)	\$ 1,929,126	\$ 2,367,620	\$ 2,019,603	\$ 1,552,393	\$ 1,538,442	\$ 1,545,180
Net Position as a Percentage of OPEB Liability	N/A	N/A	N/A	N/A	N/A	N/A
Covered-Employee Payroll	\$ 2,016,099	\$ 1,889,323	\$ 1,791,020	\$ 1,760,722	\$ 1,639,523	\$ 790,000
Net OPEB Liability as a Percentage of Payroll	95.69%	125.32%	112.76%	88.17%	93.83%	195.59%

Notes:

*The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT.*

*These schedules are intended to present information for 10 years but may be built prospectively. Additional years will be displayed as they become available.*



**Other Post-Employment Benefits (OPEB) Plan**  
**Schedule of MPERS' Proportionate Share of Net OPEB Liability**  
**for MoDOT and MSHP Medical and Life Insurance Plan**

<b>Year Ended June 30</b>	<b>Proportion of Net OPEB Liability</b>	<b>Proportionate Share of Net OPEB Liability</b>	<b>Covered Employee Payroll</b>	<b>Net OPEB Liability as % of Covered Employee Payroll</b>	<b>Net Position as % of Total OPEB Liability</b>
2018	0.14%	\$1,545,180	\$ 790,000	195.59%	N/A
2019	0.14%	1,538,442	1,639,523	93.83%	N/A
2020	0.15%	1,552,393	1,760,722	88.17%	N/A
2021	0.15%	2,019,603	1,791,020	112.76%	N/A
2022	0.17%	2,367,620	1,889,323	125.32%	N/A
2023	0.17%	1,929,126	2,016,099	95.69%	N/A

*Notes:*

*The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT.*

*These schedules are intended to present information for 10 years but may be built prospectively. Additional years will be displayed as they become available.*

## | Supplementary Information |

### Schedule of Administrative Expenses For the Year Ended June 30, 2023

#### **Personnel Services**

Salary Expense	\$ 2,619,824
Employee Benefit Expense	<u>1,968,827</u>
<b>Total Personnel Services</b>	<b>4,588,651</b>

#### **Professional Services**

Actuarial Services	110,590
Audit Services	51,000
Legislative Consultant	31,200
Investment Special Consulting	25,000
Insurance Consultant	7,800
Other Consultant Fees	37,698
Fiduciary Insurance	25,233
IT Hosting and Support	297,385
Other	<u>24,237</u>
<b>Total Professional Services</b>	<b>610,143</b>

#### **Miscellaneous**

Depreciation	23,751
Meetings / Travel / Education	74,526
Equipment / Supplies	85,081
Printing / Postage	27,394
Bank Service Charge	9,211
Building Expenses	41,513
Other	<u>68,988</u>
<b>Total Miscellaneous</b>	<b>330,464</b>

<b>Total Administrative Expenses</b>	<b><u>\$5,529,258</u></b>
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**Schedule of Investment Expenses  
For the Year Ended June 30, 2023**

**Investment Income Expenses**

Management and Performance Fees by Asset Class

Equities	\$ 1,497,705
Fixed Income Core	100,856
Opportunistic Debt	5,080,628
Real Estate	5,218,402
Private Equity	6,628,339
Real Assets	5,922,691
Hedge Funds	<u>2,424,461</u>
<b>Total Management and Performance Fees</b>	<b><u>\$26,873,082</u></b>

Investment Custodial Fees	78,926
Performance Management	218,258
General Consultant (Monitoring) Fee	355,000
Professional Fees	465,338
Investment Interest Expense	4,705,746
Other Fees / Expenses (Refunds)	<u>(258,014)</u>
<b>Total Investment Income Expenses</b>	<b><u>\$32,438,336</u></b>

**Securities Lending Expenses**

Borrower Rebates (Refunds)	\$ 619,996
Bank Fees	<u>83,935</u>
<b>Total Securities Lending Expenses</b>	<b><u>\$ 703,931</u></b>

# | Supplementary Information |

## Schedule of Consultant and Professional Expenses For the Year Ended June 30, 2023

<b><u>Professional / Consultant</u></b>	<b><u>Nature of Service</u></b>	
Gabriel, Roeder, Smith & Co.	Actuarial	\$110,590
LexisNexis Risk Data Management	Death Audit Services	1,800
MO Department of Health & Senior Services	Death Audit Services	1,205
Pension Benefit Information	Death Audit Services	10,537
Cobalt Community Research	Customer Service	1,175
Naught-Naught Agency	Director's & Officer's Insurance	24,071
Alliant Insurance Services, Inc.	Employee Crime Bond	1,162
Williams-Keepers, LLC	Financial Audit Services	51,000
Tanner Accountants & Advisors	Cyber Security Consulting	31,800
Porter, Berendzen & Associates Architecture	Architecture Services	9,520
Midwest Computech	Information Technology	47,508
Huber & Associates	Information Technology	3,055
Levi, Ray & Shoup, Inc.	Information Technology	240,435
Sikich, LLP	Information Technology	6,387
Thompson Coburn, LLP	Legal Consulting	5,898
Michael G. Winter Consultants, LLC	Legislative Consulting	31,200
Evercore Group, LLC	Market Research	25,000
Charlesworth Benefits	Risk Management Consulting	7,800
<b>Total Consultant and Professional Expenses</b>		<b><u>\$610,143</u></b>

**MISSOURI DEPARTMENT OF TRANSPORTATION  
AND HIGHWAY PATROL EMPLOYEES'  
RETIREMENT SYSTEM**

**COMMUNICATION OF  
AUDIT RELATED MATTERS**

**JUNE 30, 2023**

November 3, 2023

To the Audit Committee of the Board of Trustees of the  
Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System

We have audited the financial statements of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) for the year ended June 30, 2023, and have issued our report thereon dated November 3, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to the System's Chairman of the Audit Committee of the Board of Trustees in a letter dated May 2, 2023. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. Except as noted below, no new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2023. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All material significant transactions have been recognized in the financial statements in the proper period.

Governmental Accounting Standards Board (GASB) issued statement 96, *Subscription-Based Information Technology Arrangement*, which intended to improve financial reporting for subscription-based information technology arrangements. This statement requires governmental entities which such arrangements to recognize on the statement of net position the assets and liabilities for the rights and obligations created by those arrangements with terms of more than 12-months. The Company does not have any subscription-based information technology arrangements that are within the scope of this new standard. Therefore, there was no impact on the Company or its financial statements as a result of this accounting standard.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: fair value of investments, useful lives of capital assets, and employers' total pension liability and related disclosures.

Management's estimate of the fair value of investments is based on quoted market prices; input from outside investment managers, consultants, and general partners; and current economic conditions. The estimated fair values of alternative investments represent particularly sensitive accounting estimates. Estimated useful lives of capital assets are generally based on past experience with similar assets. Employers' total pension liability

and related disclosures are based on actuarial methods and assumptions determined in consultation with the System's actuary. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were investments and the net pension liability of employers.

The financial statement disclosures are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

We are pleased to report that we encountered no difficulties in dealing with management in performing and completing our audit. All system personnel cooperated with us fully during the conduct of our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatement of the financial statements. Management has determined the effect is immaterial to the financial statements as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 3, 2023.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

We applied certain limited procedures to the management's discussion and analysis and the schedules of changes in the employers' net pension liability, employers' contributions, investment returns, changes in net OPEB liability and related ratios, and the System's proportionate share of net OPEB liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of administrative expenses, investment expenses, and professional/consultant expenses, which accompany the basic financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial and statistical sections, which accompany the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Restriction on Use

We thank System management and staff for their assistance during the course of our audit. We will be pleased to discuss these or any other matters at your convenience. This information is intended solely for the use of the Board of Trustees and management of the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Williams-Keepers LLC". The script is cursive and fluid, with the letters "W", "K", and "L" being particularly prominent.

WILLIAMS-KEEPERS LLC



Missouri Department of Transportation and Highway Patrol Employees' Retirement System  
Passed Adjustment Journal Entry (PAJE) Schedule  
June 30, 2023

PAJE No.	Account Description	Increase (Decrease) Asset	(Increase) Decrease Liability	(Increase) Decrease Equity	(Revenue) Expense
1	Net position restricted for pensions	\$ -	\$ -	\$ 399,250	\$ -
	Realized loss on sale of investments	-	-	-	(399,250)
	<i>(To reflect current year impact of prior year passed adjusting journal entry for the write off Concordia Asia investment)</i>				
	Total effect	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,250</u>	<u>\$ (399,250)</u>
	Balances	<u>3,330,628,503</u>	<u>(49,000,659)</u>	<u>(3,281,627,844)</u>	<u>(214,434,758)</u>
		<u>0.00%</u>	<u>0.00%</u>	<u>-0.01%</u>	<u>0.19%</u>

**MISSOURI DEPARTMENT OF TRANSPORTATION  
AND HIGHWAY PATROL EMPLOYEES'  
RETIREMENT SYSTEM**

**MANAGEMENT LETTER**

**JUNE 30, 2023**

November 3, 2023

To the Board of Trustees and Management of the  
Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System

In planning and performing our audit of the financial statements of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) for the year ended June 30, 2023, in accordance with U.S. generally accepted auditing standards, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Systems' financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did become aware of certain deficiencies in internal control that we consider to be significant deficiencies. The following items summarize our comments and suggestions regarding those deficiencies.

#### **PRIOR YEAR RECOMMENDATION PARTIALLY IMPLEMENTED**

##### ***Investment Accounting Procedures and Management Review (significant deficiency)***

During a prior audit, we noted the System did not have documented accounting procedures related to internally managed timber investments. Due to unforeseen changes in the timber investment portfolio during the prior year, the System transitioned to internally manage three timber investments. The System performed operational procedures over these investments, however, the accounting treatment of these investments was inconsistent. We recommended the system document routine accounting procedures and to perform the procedures on a timely basis. In the current year audit, we noted the system had implemented routine accounting procedures and received external financial statement audits for all internally managed timber investments held as of December 31, 2022. However, one of the internally managed investments was partially held at cost. During the current year, the System transitioned to internally manage additional timber investments. These investments are currently recorded at cost. We continue to recommend the System obtain a professional timberland appraisal for all investments or perform additional analysis that allows the System to adjust the investments to their fair value in accordance with U.S. generally accepted accounting principles.

Management's Response: We concur.

External audits were performed on all internally managed timber investments for the calendar year ended December 31, 2022. All audits resulted in an unmodified opinion. External audits will continue to be performed annually. Additional timber investments were brought in-house to internally manage the last quarter of fiscal year 2023. MPERS is working to produce financial statements in accordance with U.S. GAAP for each of these investments and will have them externally audited for the year ended December 31, 2023.

#### **PRIOR YEAR RECOMMENDATION IMPLEMENTED**

##### ***Investment Accounting Procedures and Management Review (significant deficiency)***

During a prior audit, we noted several instances of errors in the supporting schedules and information provided to us for the alternative investment portfolio. We noted turnover within the investment department resulted in a lack of consistent personnel to perform investment accounting procedures and certain procedures performed by the investment accountant were not documented. During the current year audit, we noted no errors in supporting schedules and information provided to us was complete for the alternative investment portfolio.

During a prior audit, we noted management and performance fees were not properly recorded and the System had ceased the process of reviewing these fees for accuracy and reasonableness. During the current year audit, we noted no instances of management and performance fees not being recorded or reviewed.

We will be pleased to discuss these or any other matters deemed appropriate at your convenience. This report is intended solely for the information and use of the Board of Trustees, management, and others within the System and is not intended to be and should not be used by anyone other than these specified parties.

Management's Response: We concur.

Investment accounting processes and information, including management and performance fees, were reviewed throughout the year to ensure adherence to procedures and accuracy of recorded information. Investment schedules and information were reviewed prior to providing it to the auditors. This will all continue to be part of MPERS' on-going routine.

MPERS has fully implemented the recommendation.

Sincerely,

A handwritten signature in black ink that reads "Williams-Keepers LLC". The signature is written in a cursive, flowing style.

WILLIAMS- KEEPERS LLC